

Message Text

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ORIGIN ARA-10

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CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 STR-04 ITC-01
TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 /085 R

DRAFTED BY ARA/ECA:TSHUGART:RC
APPROVED BY E:COOPER
ARA:JGRUNWALD
EB/STA:MGOLDMAN
ARA/ECA:RWZIMMERMANN
S/S - MR. SEBASTIAN
-

-----172232Z 093642 /46

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FM SECSTATE WASHDC
TO AMEMBASSY BRASILIA PRIORITY
INFO AMCONSUL SAO PAULO
AMCONSUL RIO DE JANEIRO

C O N F I D E N T I A L STATE 059653

E.O. 11652: GDS

TAGS: ETRD, BR

SUBJECT: UNDERSECRETARY COOPER'S MEETING WITH BRAZILIAN
AMBASSADOR PINHEIRO

SUMMARY

1. ON MARCH 15 BRAZILIAN AMBASSADOR PINHEIRO CALLED ON
UNDERSECRETARY COOPER TO EXPRESS THE GOB'S CONCERN OVER

THE PENDING FOOTWEAR CASE. IN COURSE OF MEETING THERE
WAS AN EXCHANGE OF VIEWS ON MAJOR BILATERAL TRADE ISSUES,
INCLUDING U.S. COUNTERVAILING DUTIES, BRAZILIAN EXPORT
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INCENTIVES AND THE BILATERAL TRADE IMBALANCE. THE UNDER-
SECRETARY ALSO RAISED THE ISSUE OF COFFEE PRICES AND
BRAZIL'S COFFEE EXPORT TAX.

2. AMBASSADOR PINHEIRO SAID THAT HE HAD BEEN INSTRUCTED TO
EXPRESS HIS GOVERNMENT'S CONCERN OVER THE IMPENDING
PRESIDENTIAL DECISION IN THE "ESCAPE CLAUSE" CASEON

FOOTWEAR. HE NOTED THAT HE HAD ALSO DISCUSSED THE SUBJECT WITH TREASURY ASSISTANT SECRETARY BERGSTEN. AFTER REFERRING TO THE NEED FOR MAINTAINING A FREETRAIDING SYSTEM IN WHICH THE PRINCIPLE OF COMPARATIVE ADVANTAGE CAN OPERATE, AMBASSADOR PINHEIRO SAID THAT SUCCESSIVE U.S. RESTRICTIONS ON BRAZILIAN PRODUCTS WERE ALREADY SERIOUSLY LIMITING TRADE FLOWS BETWEEN THE TWO COUNTRIES. HE ADDED THAT

BRAZIL'S SUBSTANTIAL TRADE DEFICIT WITH THE U.S. CONTINUES -- ALTHOUGH AT A SOMEWHAT REDUCED LEVEL IN 1976 AS A RESULT OF HIGHER PRICES FOR CERTAIN COMMODITIES. (PINHEIRO NOTED THAT THE U.S. HAD NOT SUFFERED FROM BRAZILIAN IMPORT RESTRICTIONS BECAUSE OF THE INELASTICITY OF ITS IMPORTS FROM THE U.S.)

3. THE AMBASSADOR SAID THAT SERIOUS POLITICAL IMPLICATIONS IN BRAZIL OF PRESIDENT CARTER'S DECISION IN THE SHOES CASE WOULD OVERSHADOW ECONOMIC CONSIDERATIONS. HE REFERRED IN THIS REGARD TO REGIONS IN SOUTHERN BRAZIL WHICH ARE HEAVILY DEPENDENT ON SHOE EXPORTS. HE EXPRESSED THE HOPE THAT A . DECISION WOULD BE MADE TO OPT FOR ADJUSTMENT ASSISTANCE, WHICH WOULD PROTECT THE INTERESTS OF U.S. PRODUCERS WITHOUT DOING INJURY TO BRAZIL OR TO AMERICAN CONSUMERS. HE ADDED THAT WITHIN THE CONTEXT OF THE PRESIDENT'S DECISION AS IN OTHER BILATERAL TRADE ISSUES, BRAZIL DOES NOT SEEK SPECIAL TREATMENT.

4. IN RESPONSE TO A QUESTION FROM THE UNDERSECRETARY, PINHEIRO TICKED OFF U.S. RESTRICTIONS ON BRAZILIAN
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PRODUCTS, INCLUDING CVD'S ON COTTON YARN AND SCISSORS/ SHEARS, AND THE EXCLUSION OF BRAZILIAN CORNED BEEF AND SUGAR FROM THE GSP LIST. HE SAID THAT WHILE THE DOLLAR VALUE OF THE INDIVIDUAL PRODUCTS MAY NOT APPEAR IMPRESSIVE TO THE U.S., TAKEN TOGETHER THEY COULD AFFECT SEVERAL MILLION DOLLARS OF BRAZIL'S EXPORTS TO THE U.S.

5. PINHEIRO STRESSED THAT BRAZIL'S EXPORT INCENTIVES ARE OF THE TYPE WHICH ARE UNIVERSALLY ACCEPTED AND ARE DESIGNED TO KEEP EXPORTS COMPETITIVE BY OFFSETTING THE HIGH SOCIAL COSTS BORNE BY BRAZILIAN FIRMS AS WELL AS OTHER COSTS RESULTING FROM BOP MEASURES. THE UNDERSECRETARY REPLIED THAT REBATES THAT OFFSET SOCIAL CHARGES ARE CLEARLY COUNTERAVAILABLE UNDER THE TRADE ACT. PINHEIRO SAID THAT THE GOB HAS ALREADY BEGUN TO RESTRUCTURE ITS INCENTIVE PROGRAMS TO MAKE THEM COMPATIBLE WITH U.S. POLICY, BUT THAT THE PROCESS WOULD REQUIRE SEVERAL YEARS. HE ADDED THAT BRAZIL WOULD CONTINUE ITS "CRAWLING PEG" EXCHANGE RATE POLICY BECAUSE THE ALTERNATIVE -- A LARGE ONE-STEP

DEVALUATION -- WOULD "DISTURB" BRAZIL'S ECONOMY AND UPSET LONG-TERM INVESTMENT PLANNING. THE UNDERSECRETARY AGREED THAT THE "CRAWLING PEG" WAS A SENSIBLE POLICY.

6. COMMENTING ON THE BILATERAL TRADE IMBALANCE, THE UNDER-SECRETARY CAUTIONED AGAINST EXCESSIVE ATTENTION TO BILATERAL, AS OPPOSED TO THE GLOBAL TRADE POSITION OF A COUNTRY. PINHEIRO AGREED IN THEORY BUT SAID THAT LACK

OF PROGRESS IN THE MTN, THE SIZE OF THE BILATERAL DEFICIT AND U.S. RESTRICTIONS FORCED HIS GOVERNMENT TO BE CONCERNED OVER THE TRADE IMBALANCE WITH THE U.S.

7. THE UNDERSECRETARY THEN RAISED THE QUESTION OF COFFEE PRICES. HE STRESSED THAT THIS HAD BECOME A PSYCHOLOGICAL, HIGHLY-PUBLICIZED ISSUE IN THE U.S. AND THAT THE PUBLIC LINKED HIKES IN BRAZIL'S COFFEE EXPORT TAX TO INCREASES IN CONFIDENTIAL

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COFFEE PRICES. WHILE AWARE THAT THE TAX WAS NOT THE CAUSE OF RISING PRICES, BOTH THE UNDERSECRETARY AND CONSUMER AFFAIRS COORDINATOR JOAN BRADEN FELT STRONGLY THAT IT WOULD BE USEFUL IF THE GOB WOULD REFER TO THE LEVY IN MORE DESCRIPTIVE TERMS, E.G. AS AN EXCESS PROFITS TAX.

8. AMBASSADOR PINHEIRO UNDERTOOK TO CONVEY THIS SUGGESTION TO THE GOB. HE STRESSED THAT THE EXPORT TAX WAS DESIGNED TO NEUTRALIZE EXCESS RETURNS TO COFFEE PRODUCERS AND TO FINANCE REPLANTING. HE NOTED THAT IN 1976 BRAZIL DIPPED INTO ITS STOCKPILE IN ORDER TO EXPORT MORE COFFEE THAN THE AVERAGE OF PRECEDING YEARS. ABNORMALLY HIGH PRICES, HE SAID, WERE NOT IN BRAZIL'S INTEREST AS THEY ENCOURAGE THE ENTRY OF MARGINAL PRODUCERS.

CHRISTOPHER

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